

Message Text

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E.O. 11652: GDS

TAGS:EFIN, IMF, TU

SUBJECT:TURKEY'S IMF STANDBY PERFORMANCE

REF: (A) ANKARA 5417, (B) ANKARA 5114

1. WASHINGTON AGENCY OFFICERS MET JULY 28 WITH IMF STAFF
TO REVIEW RESULTS OF RECENT TRIP TO TURKEY. FUND STAFF
INDICATED DISSATISFACTION WITH TRIP AND SAID GOT OFFICIALS
WERE UNCOOPERATIVE AND DESCRIBED APPARENT TURKISH FAILURE
TO MEET PERFORMANCE CRITERIA OF STANDBY AGREEMENT. STAFF
SAID THAT UPON RETURN TO WASHINGTON, IT SOUGHT AND RECEIVED
FROM IMF MANAGING DIRECTOR AUTHORIZATION TO INFORM GOT
THAT MANAGING DIRECTOR NOT IN A POSITION TO CONCUR IN GOT
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DRAWING SCHEDULED FOR AUGUST 26 UNLESS ADJUSTMENT MEASURES
ARE TAKEN TO, INTER ALIA, OFFSET EROSION OF TURKEY'S EX-
PORT COMPETITIVENESS. THIS MESSAGE CONVEYED BY TELEPHONE
TO FINANCE UNDER SECRETARY GUCAVAS JULY 24. STAFF SAID
IMF WILLING CONSIDER ADJUSTMENTS IN PERFORMANCE CRITERIA
IF JUSTIFIED, BUT ONLY IF IT IS CLEAR THAT GOT IS ADDRESS-
ING KEY ISSUES. STAFF EXPRESSED VIEW THAT STABILIZATION

PROGRAM HAS LITTLE OR NO CHANCE OF SUCCESS UNLESS NEEDED ACTIONS ARE TAKEN PROMPTLY AND THAT THE NEXT STEP IS UP TO GOT.

2. STAFF IDENTIFIED SEVERAL APPARENT GOT DEFICIENCIES

UNDER AGREEMENT. MOST SERIOUS IS EXCHANGE RATE. THE IMF STAFF CONSIDERS THAT THE EXPANDED EXPORT REBATES CONSTITUTE AN EXPORT SUBSIDY RATHER THAN, AS GOT CLAIMS, A SIMPLE TAX REBATE. STANDBY PROHIBITION ON EXPORT SUBSIDIES WAS INTENDED TO ENCOURAGE GOT TO MAINTAIN A FLEXIBLE EXCHANGE RATE REFLECTING ECONOMIC CONDITIONS. FUND BELIEVES ARREARS IN CURRENT PAYMENTS HAVE OCCURRED, BUT THIS DID NOT SEEM PARTICULARLY DISTURBING. THE FAILURE OF THE CENTRAL BANK TO MEET TARGETS ON NET DOMESTIC ASSETS AND PUBLIC SECTOR CREDIT CAUSES CONCERN, PARTICULARLY SINCE THESE QUOTAS WERE DESIGNED TO AVERAGE OUT OVER THREE MONTHS TO ALLOW GOT SOME FLEXIBILITY. THE IMF LEGAL DEPARTMENT WILL REVIEW THE BILATERAL PAYMENTS AGREEMENTS WITH OIL PRODUCERS.

3. THE FUND STAFF RECOGNIZES THAT THE GOT WAS UNDER GREAT PRESSURE TO GRANT WAGE INCREASES, ALTHOUGH THE RETRO-ACTIVITY TO EARLY 1977 OF SOME OF THE INCREASES IS A PROBLEM. THIS HAS ADDED TO INFLATION AND TENDED TO UNDERMINE THE EFFECT OF THE PREVIOUS EXCHANGE RATE ADJUSTMENT. CONFIDENTIAL

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REVIEW OF PROGRAM HAS REVEALED THE NEED FOR ADDITIONAL MEASURES AND, ACCORDING TO THE FUND, STAFF GOT PROPOSALS FOR CURRENT ACTION, SUCH AS RAISING STATE REVENUES BY HIGHER PRICES OF PETROLEUM PRODUCTS, ARE INADEQUATE. GOT, FOR ITS PART, IS RESISTING FURTHER MEASURES UNTIL THERE IS GREATER UTILIZATION OF CAPACITY (WHICH WILL REQUIRE HIGHER IMPORTS) THUS SOFTENING THE POLITICAL AND ECONOMIC IMPACT OF FURTHER MEASURES.

4. ABOVE FOR YOUR INFORMATION ONLY, AND YOU SHOULD NOT REVEAL TO GOT CONTENT OR FACT OF DISCUSSIONS. VANCE

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